

## The State of Wisconsin Group Insurance Board & Employee Trust Funds Board



Long-Term Disability  
Insurance Plan  
2008 Premium Development  
As of December 31, 2006

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# Introduction

Deloitte Consulting LLP ("Deloitte Consulting") and Gabriel, Roeder, Smith & Co. ("GRS") shared the development of the LTDI numbers for December 31, 2006. The results of the GRS work are contained in a separate document. This report contains the reserve for claims incurred plus the development of the recommended premium rates for 2008, both of which were developed by Deloitte Consulting. Additional items, developed by GRS, are displayed in this report as required to support the recommended premiums.

# Highlights

	<u>12/31/2006</u>	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>12/31/2002</u>	<u>12/31/2001</u>
LTDI Beg Assets	\$296,747,117	\$289,288,911	\$277,654,620	\$266,967,728	\$260,550,273	\$226,170,712
Closing Adjustments	(\$2,075,655)	(\$76,319)	(\$380,135)	(\$799,976)	\$417,059	\$21,501,124
Contributions	\$0	\$0	\$0	\$0	\$0	\$0
Inv Earnings	\$28,493,846	\$18,444,252	\$21,943,394	\$19,403,498	\$12,394,761	\$19,557,449
Paid Claims	\$12,329,911	\$9,863,169	\$8,817,188	\$7,039,042	\$5,592,879	\$5,706,460
Expenses	\$1,147,421	\$1,046,558	\$1,111,780	\$877,588	\$801,486	\$972,551
LTDI Ending Assets	\$309,687,976	\$296,747,117	\$289,288,911	\$277,654,620	\$266,967,728	\$260,550,274
Incurred Claims Reserve	\$108,286,975	\$90,302,382	\$71,254,858	\$53,950,828	\$43,806,162	\$34,345,986
RFC	\$201,401,001	\$206,444,735	\$218,034,053	\$223,703,792	\$223,161,566	\$226,204,287
Regular Premium (% of payroll)	0.22%	0.22%	0.22%	0.22%	0.24%	0.24%
RFC Adjustment	-0.22%	-0.22%	-0.22%	-0.22%	-0.24%	-0.24%
Recommended Premium Rate	None – 2008	None – 2007	None – 2006	None – 2005	None – 2004	None – 2003

The funded status of the LTDI plan decreased slightly as evidenced by the approximately \$5 million decrease in the Reserve for Future Claims ("RFC"). This is due to a 19.9% increase in the incurred claim reserve and a 4.4% increase in the LTDI assets. The reserve increase is due to a significant growth in the number of claims, as well as a modest 5% increase in average benefit. This is the expected outcome due to the combination of the immaturity of the plan's experience and the suspended premium payments. The RFC does not include the \$7.4 million in 2005 deferred market gains which need to be smoothed into the asset balance over the next five years. This large positive funded status will enable the Plan to continue to suspend premium payments for another year.

# Development of 2008 LTDI Premiums

Based Upon 5-Year Adjustment of RFC  
December 31, 2006

	General	Executive & Elected	Protective		Total
			With Social Security	Without Social Security	
<b>\$ in Millions</b>					
1) Payroll	\$9,933.5	\$92.6	\$976.9	\$167.3	\$11,170.2
2) RFC	166.9	1.4	26.4	6.7	201.4
<b>%'s of Active Member Payroll</b>					
3) Regular Premium	0.18%	0.16%	0.29%	0.43%	0.19%
4) RFC Adjustment: 20% x (2)/(1)	(0.34)	(0.30)	(0.54)	(0.80)	(0.36)
5) 2006 LTDI Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Prior Year Rate	0.00%	0.00%	0.00%	0.00%	0.00%

## 2008 Recommendation:

The 2008 premium rates shown above are based upon a continuation of the 20% (5 year) adjustment to the RFC that was adopted by the Board in connection with the development of the 1996 rates and continued thereafter. The assets as calculated under this methodology have been sufficient to temporarily suspend premiums, which was done beginning in 1999.

Premium rates merely designate amounts to be transferred from the WRS retirement fund to the LTDI fund, so reductions in premium rates only result in a different allocation of funds and not in a reduction in amounts collected. The plan continues to be well funded as evidenced by the large positive Reserve for Future Claims. The current funded status allows for substantial lead time for any changes necessary due to anticipated higher claim levels in 2009 and beyond.

In light of the excellent funded status of the plan, as well as the fact that any premium reduction is transparent to both employers and employees, we recommended continuing the indefinite premium suspension which began in 1999.

# Benefits Being Paid and Reserves

## By Year Incurred

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
<b>General &amp; Teachers</b>															
Number	3	8	10	19	10	39	43	51	56	82	145	104	184	113	867
Annual Benefits	72,070	133,489	154,031	280,664	190,229	549,948	624,488	589,324	612,099	1,085,358	1,839,914	1,242,866	2,257,648	1,563,002	11,195,130
Actuarial Present Value	414,249	546,151	920,010	1,628,965	1,222,566	3,543,503	4,156,820	3,440,415	4,086,904	7,901,594	12,012,119	9,452,208	18,204,601	12,832,873	80,362,977
<b>Local Elected Official</b>															
Number	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Annual Benefits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Actuarial Present Value	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Prot w/Social Sec</b>															
Number	0	0	0	1	1	4	1	4	8	7	9	10	8	6	59
Annual Benefits	0	0	0	2,718	22,807	58,581	21,467	59,222	128,313	74,489	115,694	137,091	137,769	91,973	850,123
Actuarial Present Value	0	0	0	9,225	21,857	329,031	300,240	664,624	1,037,677	711,021	1,024,344	1,324,929	1,171,855	1,024,823	7,619,626
<b>Prot w/out Social Sec</b>															
Number	0	0	0	0	0	0	0	0	1	1	1	1	0	0	4
Annual Benefits	0	0	0	0	0	0	0	0	17,764	12,684	21,791	28,262	0	0	80,501
Actuarial Present Value	0	0	0	0	0	0	0	0	272,809	0	166,533	215,992	0	0	655,333
<b>Totals</b>															
Number	3	8	10	20	11	43	44	55	65	90	155	115	192	119	930
Annual Benefits	72,070	133,489	154,031	283,382	213,036	608,529	645,954	648,547	758,176	1,172,531	1,977,398	1,408,219	2,395,417	1,654,974	12,125,753
Actuarial Present Value	414,249	546,151	920,010	1,638,189	1,244,423	3,872,534	4,457,060	4,105,039	5,397,390	8,612,615	13,202,996	10,993,129	19,376,456	13,857,695	88,637,936

# Development of Reserve for Future Claims (RFC)

December 31, 2006

LTDI Assets	<u>\$ 309,687,976</u>
<b>Actuarial Present Value of:</b>	
Benefits being paid December 31, 2006	\$ 86,629,580
Incurred but not reported claims (IBNR reserve)	<u>21,657,395</u>
<i>Total</i>	<u>\$ 108,286,975</u>
Reserves for Future Claims (RFC)	<u>\$ 201,401,001</u>

Incurred but not reported claims are 25% of the total LTDI claims in payment status. The liability is an increase of 19.9% over 2005. The increase is due to a significant growth in the number of claims, as well as a modest 5% increase in average benefit. 2005 also saw similar increases in claims and the liability over 2004.

# Appendix 1

## Assumptions

**Mortality:** The projected future benefit stream is reduced for mortality. The Wisconsin Projected Experience Table – 93 is used; 98% of male mortality and 97% of female mortality.

**Set Forward:** Male mortality is adjusted by incorporating a 12 year set forward (males only).

**Recovery:** No recoveries are assumed in the projected future benefit stream.

**Benefit Period:** Projected benefits cease at age 65.

**Interest:** 4.8% (which approximates a 7.8% valuation rate (reduced from 8% on February 1, 2004) with 3% annual benefit increases) is used to discount the projected future benefit stream to the valuation date.

**IBNR:** 25% of the Reserve for reported claims (reduced from 30% in 2005 to reflect the pattern of decreasing actual IBNR to total LTDI claims in payment status, the factor had been reduced from 35% to 30% in 1999).

**Eligibility:** 1) Employees who begin or resume covered WRS employment on or after October 16th, 1992 or 2) employees who have been continuously employed under the WRS since before October 16th, 1992, and are eligible for coverage under the WRS disability program, but elect coverage under the LTDI program. (This right to elect between programs is temporary and has been renewed every two years.)





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